

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01

ACDA-07 TRSE-00 AID-05 EB-07 /075 W

----- 108394

R 021430Z AUG 76

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 1489

INFO SECDEF WASHDC//ASD:ISA/DSAA//

C O N F I D E N T I A L NAIROBI 8088

E.O. 11652: GDS

TAGS: MASS, KE, US

SUBJ: FMS SALE OF AIRCRAFT TO KENYA: FINANCING ASPECTS

1. CONGRESSIONAL REVIEW PERIOD OF 30 DAYS FOR PROPOSED SALE OF F-5E/F SQUADRON TO KENYA WILL EXPIRE AUGUST 6, AND LOA WILL HAVE TO BE SIGNED BY AUGUST 31 (WHEN TERMS OF LOA EXPIRE). IN ANTICIPATION OF SIGNATURE THIS MONTH, EMBASSY EXPECTS IN NEAR FUTURE TO DISCUSS WITH KENYAN DEFENSE AND TREASURY OFFICIALS THE FINANCIAL OBLIGATIONS THEY WILL ASSUME WHEN THEY SIGN THE LOA. AS RESULT OF USAF SURVEY REPORT PRESENTED IN EARLY JULY, GOK IS AWARE THAT PRICE TAG IS NOW ESTIMATED AT \$70.2. THEY ASSUME U.S. WILL PROVIDE FINANCING FOR AT LEAST \$65 MILLION OF THIS AMOUNT, WHICH WAS ESTIMATED COST OF PACKAGE DURING PRELIMINARY TALKS LAST FEBRUARY AND WHICH THE SECRETARY INFORMED PRESIDENT KENYATTA WE WOULD FINANCE.

2. ALTHOUGH KENYANS WERE INFORMED BY USAF SURVEY TEAM THAT PART OF THE HIGHER COST ESTIMATE WAS DUE TO ACCELERATION OF DELIVERY TIME BY APPROXIMATELY SIX MONTHS (AND THEY ARE APPARENTLY WILLING TO PAY THE PREMIUM), THEY HAVE PROBABLY NOT YET FOCUSED ON THE IMPACT OF EARLIER DELIVERY ON SCHEDULE OF PROGRESS PAYMENTS DUE. THEY ARE PROBABLY ASSUMING THAT U.S. CONFIDENTIAL

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GOVERNMENT CAN ADJUST THE TIMING OF FMS CREDITS TO

COVER THE BILLS WHEN THE COME DUE.

3. LATEST INFORMATION AVAILABLE TO EMBASSY IS THAT KENYANS HAVE SIGNED LOAN AGREEMENTS FOR \$20 MILLION (FY 75 PLUS 76 AMOUNTS) AND THAT A FURTHER AMOUNT OF \$15 MILLION IS CONTEMPLATED FOR FY-77. HOWEVER, TOTAL PROGRESS PAYMENTS DUE BY OCTOBER 77 WILL BE ABOUT \$60 MILLION, LEAVING A SHORTFALL OF \$25 MILLION FOR THE KENYANS TO MAKE UP. ANNUAL LOANS WOULD EVENTUALLY CATCH UP WITH AMOUNTS DUE, EXCEPT FOR GAP OF \$5 MILLIONS BETWEEN \$65 MILLION CREDIT PROJECTED AND ESTIMATED \$70 MILLION COST OF PACKAGE.

4. EMBASSY HAS REGULARLY CAUTIONED THE KENYANS THAT THE U.S. CANNOT MAKE MULTI-YEAR COMMITMENTS OF FMS FINANCING, AND KENYANS UNDERSTAND NECESSITY OF GETTING CONGRESSIONAL APPROPRIATION EACH YEAR. HOWEVER, GOK BELIEVES IT HAS A COMMITMENT FROM THE ADMINISTRATION TO DO ITS BEST TO FINANCE ENTIRE PACKAGE (OR AT LEAST UP TO \$65 MILLION), AND KENYANS ARE LIKELY TO BE SHOCKED BY NECESSITY OF SCRAPING UP AS MUCH AS \$25 MILLION TO TIDE THEM OVER FINANCING GAP IN MID-1977. BEFORE APPROACHING THEM ON THIS SUBJECT, WOULD APPRECIATE DEPARTMENT'S BEST EFFORT TO INCREASE AMOUNT OF FMS CREDITS MADE AVAILABLE TO KENYA IN FY-77 AND FY-78 TO MATCH SCHEDULE OF PROGRESS PAYMENTS. IT IS PARTICULARLY IMPORTANT THAT KENYANS HAVE REALISTIC ESTIMATE OF ANY CREDIT SHORTFALL BEFORE THEY SIGN LOA.
MARSHALL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, AIRCRAFT SALES, COST ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976NAIROB08088
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760298-0030
From: NAIROBI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760896/aaaadgly.tel
Line Count: 91
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2004 by ElyME>; APPROVED <28 OCT 2004 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FMS SALE OF AIRCRAFT TO KENYA: FINANCING ASPECTS
TAGS: MASS, KE, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006